

Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-25 EA-11 ISO-00 AID-20 CIAE-00 COME-00

EB-11 FRB-02 INR-10 NSAE-00 RSC-01 XMB-07 OPIC-12

SPC-03 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10 SS-20

STR-08 CEA-02 L-03 H-03 DODE-00 PA-04 USIA-15 PRS-01

AGR-20 SAJ-01 DRC-01 /201 W

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P R 061210Z DEC 73

FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 2204

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMCONSUL MILAN

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

AMCONSUL NAPLES

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E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: ITALIAN EXCHANGE MARKET DEVELOPMENTS

1. SUMMARY. BANK OF ITALY APPARENTLY CONTINUING TO
INTERVENE RATHER HEAVILY IN SUPPORT OF LIRA RATE.
BANK OFFICIAL REPORTED SWISS RUMORS OF PURCHASE OF
GOLD IN FREE MARKET BY BANK OF FRANCE. ITALIAN STATE
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ENTITIES CONTINUING TO BORROW LARGE SUMS IN EUROMARKETS.

END SUMMARY.

2. HEAD OF FOREIGN EXCHANGE OPERATIONS OF BANK OF ITALY, ERCOLANI, TOLD TREASURY ATTACHE DECEMBER 6 THAT BANK OF ITALY IS CONTINUING TO SUPPORT COMMERCIAL LIRA IN EXCHANGE MARKETS. PRELIMINARY MONETARY MOVEMENTS DATA FOR NOVEMBER 1-15 SHOW OVERALL BALANCE OF PAYMENTS DEFICIT OF \$35 MILLION. HOWEVER, NET OFFICIAL ASSETS FELL BY \$99 MILLION AGAINST IMPROVEMENT OF \$64 MILLION IN NET FOREIGN POSITION OF COMMERCIAL BANKS. OVERALL DEFICIT IN FIRST HALF OF NOVEMBER OCCURRED NOTWITHSTANDING RECEIPT OF \$100 MILLION CONSTITUTING SECOND AND LAST TRANCHE OF STATE RAILWAYS' BORROWING IN EUROMARKET.

3. CUMULATIVE BALANCE OF PAYMENTS DEFICIT THROUGH NOVEMBER 15 WAS \$610 MILLION, FINANCED BY DECLINE IN NET OFFICIAL ASSETS OF \$674 MILLION, WHILE NET FOREIGN POSITION OF COMMERCIAL BANKS IMPROVED BY \$64 MILLION. MAJOR REDUCTION IN NET OFFICIAL ASSETS DURING THIS PERIOD CONSISTED OF DROP IN GOLD AND CONVERTIBLE CURRENCIES OF \$403 MILLION AND NET INCREASE IN SHORT-TERM LIABILITIES OF \$292 MILLION, MAINLY SWAP DRAWINGS FROM EC EARLY IN 1973. PORTION OF SWAP LIABILITIES OF \$249 MILLION OWED TO BELGIAN CENTRAL BANK WHICH WAS SCHEDULED TO FALL DUE AT END-NOVEMBER HAS BEEN EXTENDED FOR ADDITIONAL THREE MONTHS UNTIL END-FEBRUARY 1974.

4. ERCOLANI ALSO CONFIRMED THAT IN NOVEMBER BANK HAD RECEIVED ENTIRE PROCEEDS FROM \$150 MILLION IRI AUTOSTRADA EUROMARKET LOAN. PROCEEDS FROM \$120 MILLION EUROMARKET LOAN FOR MESSINA-PALERMO-CATANIA AUTOSTRADA WOULD PROBABLY BE RECEIVED EITHER IN DECEMBER OR JANUARY. NEGOTIATION OF LARGE CASSA PER IL MEZZOGIORNO EUROMARKET LOAN (PREVIOUSLY REPORTED TO BE IN RANGE \$500-800 MILLION) NOT YET COMPLETED. ERJLANI INDICATED THAT BORROWER MAY ACTUALLY BE CCOP ON BEHALF OF CASSA, SINCE FOREIGN BORROWING BY LATTER IS ADMINISTRATIVELY MORE COMPLICATED.
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5. EMBOFF INQUIRED ABOUT POSSIBLE FOREIGN EXCHANGE MARKET IMPACT OF PROPOSED PURCHASE BY ENI OF SHELL ITALIANA PROPERTIES. ERCOLANI THOUGHT THAT FOREIGN EXCHANGE PAYMENT MIGHT BE ABOUT 300 MILLION LIRE (\$516 MILLION AT 581.50 LIRE PER DOLLAR EXCHANGE RATE). ERCOLANI ADMITTED THAT RESOLUTION OF PROBLEM MIGHT BE DIFFICULT AND THAT TIMING WAS AWKWARD IN VIEW OF

PRESENT BALANCE OF PAYMENTS DEFICIT. POSSIBLE SOLUTION MIGHT BE FOR ENI TO BORROW EQUIVALENT AMOUNT IN EUROMARKET AT LONG TERM TO FINANCE PRUCHASE.

6. ERCOLANI MENTIONED THAT RUMORS HAD CIRCULATED IN SWITZERLAND ON DECEMBER 4 TO EFFECT THAT BANK OF FRANCE HAD BEEN BUYING GOLD IN FREE MARKET. ERCOLANI DID NOT INDICATE THAT HE BELIEVED RUMOR, BUT THOUGHT THERE MIGHT BE SOME LOGIC IN SUCH ACTION OF BASIS THAT FRANCE AND OTHER WEST EUROPEAN COUNTRIES WILL NEED RESERVES IN 1974 TO FINANCE INCREASED PETROLEUM IMPORTS AND THAT GOLD PRICE MIGHT WELL INCREASE IN NEXT FEW MONTHS, PERHAPS IN PART DUE TO PURCHASES BY ARAB COUNTRIES. THUS, PURCHASES OF GOLD NOW FOR SUBSEQUENT SETTLEMENTS OR RESALE MIGHT BE GOOD INVESTMENT.

7. AVERAGE COMMERCIAL LIRA RATE DECEMBER 5 WAS 610.125 AND FINANCIAL LIRA RATE WAS 630.125. WEIGHTED AVERAGE DEVALUATION OF LIRA SINCE FEBRUARY DOLLAR DEVALUATION WAS 14.24 PERCENT, BASED ON "24 ORE" INDEX. RATHER STEADY WEAKENING IN LIRA IN RECENT DAYS SEEMS DUE TO INCREASING AWARENESS ON PART OF PUBLIC OF CONTINUING LARGE BALANCE OF PAYMENTS DEFICIT IN ITALY. THIS MAY HAVE BEEN ACCENTUATED BY NATIONAL SAVINGS DAY SPEECH ON DECEMBER 1 BY GOVERNOR CARLI, IN WHICH HE INDICATED THAT ITALY COULD NOT CONTINUE TO FIANCE ITS DEFICIT THROGH EUROMARKET BORROWINGS INDEFINITELY. VOLPE

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